MNI Colombia Central Bank Preview: September 2025

Monetary policy decision and statement press release: 1900BST/1400ET – Tuesday, September 30, 2025.

MNI POV: Extended Hold Seen, Amid Split Board

The BanRep Board is widely expected to remain on hold at 9.25% for a third consecutive meeting on Tuesday, following recent stronger-than-expected economic activity data and a rebound in headline inflation. Governor Villar has spoken about his concerns over the slow disinflation process, as well as the elevated fiscal deficit, and is expected to lead a cautious majority of the Board in extending the pause in the easing cycle. However, the decision is likely to be split in a tight vote once again, with a dovish minority still pushing for a resumption of rate cuts. Latest survey data indicate that most analysts don't see further cuts until Q1 2026.

Concern Over Rising Inflation Expectations

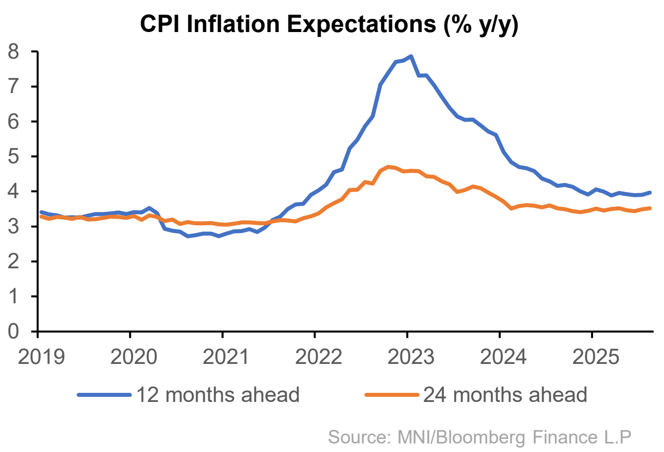
Persistent inflation pressures remain a concern for the majority of the BanRep Board, prompting them for extend the easing cycle pause at the previous monetary policy meeting on July 31. In the statement accompanying that decision, the Board said that the decision reflected a cautious approach to monetary policy that incorporated the risks surrounding the expected convergence of inflation to target. It added that "future interest rate movements will acknowledge variations in inflation and its expectations, the behaviour of economic activity, and the internal and external risk risk-balance" – a tweak from June's guidance which just stated that "future decisions will be determined based on the latest information available".

The subsequent minutes to that meeting revealed that the majority of the board members believed that the inflation backdrop does not create favourable conditions to cut interest rates. In justifying the hold, Governor Villar said that the central bank is concerned over inflation expectations, as well as the fiscal deficit. He also suggested that further rate cuts could lead to excessive easing and pointed to the impact of the cuts which have already been delivered, implying that previous easing may serve as a temporary substitute for future easing, considering the lagged effects of monetary policy.

Governor Villar Emphasises Need for Restrictive Stance

Speaking more recently, Villar has reiterated this cautious stance, saying that monetary policy needs to remain restrictive to ensure that inflation slows to target. In particular, he has continued to emphasise that inflation has not slowed as quickly as expected, while highlighting his concerns about the country's elevated fiscal deficit (the government is targeting a 7.1% of GDP deficit this year), which he said tends to push up the neutral interest rate. Villar said that this neutral rate is about 2.7% points above inflation.

In the face of ongoing government calls to lower rates, Villar also said he will resist that pressure to cut interest rates more aggressively. With the economy projected to grow 2.7% this year, he emphasised that monetary policy is clearly not impeding the economic recovery. Overall, Villar's recent remarks have given a clear signal that he will push to extend the easing cycle pause at this month's meeting, having warned previously that he wants to avoid lowering the policy rate and then having to raise it again in the near future.



Sticky Inflation a Constraint on Further Rate Cuts

Latest CPI inflation data have supported Villar's cautious remarks. In August, headline inflation rose to a four-month high of 5.10% y/y, from 4.90%, on the back of an increase in food inflation. Excluding food prices, core CPI inflation edged down marginally to 4.85% y/y, from 4.89%, slightly below the 4.91% consensus, but still well above target. Services inflation remained elevated, despite easing marginally by 7bp to 6.43% y/y last month, while non-durable goods inflation rose by 59bp to 4.13%.

Looking ahead, inflation is expected to remain broadly stable in September, after which less favourable base effects look set to keep the headline and core rates around these levels through the rest of the year. The prospect of a significant 2026 minimum wage hike also remains a meaningful risk. According to the latest BanRep analyst survey, headline inflation is now expected to end this year at 5.04% y/y, up from 4.96% seen last month and 4.74% ahead of the July MPC meeting. It is then seen easing to 4.02% by end-2026, which compares with 3.90% in August and 3.80% in July. Core CPI expectations have also been sticky, with core inflation expected to end this year at 4.69% (vs. 4.71% ahead of the July meeting) and next year at 3.98% (vs. 3.70% in July).

Speaking to MNI recently, former BanRep director and board member Roberto Steiner said that there is limited room to cut interest rates given inflation concerns. He believes there is some room to lower interest rates, but not by more than 50 or 75bp. (See MNI Policy Team Insights below.) Meanwhile, the latest BanRep survey revealed that a majority of economists now expects the central bank to remain on hold at 9.25% through the rest of this year (compared with previous expectations for a 25bp rate cut in October). A gradual easing cycle is then seen resuming early next year, with the policy rate ending 2026 at 8.00%, 50bp above the previous 7.50% forecast.

Robust Economic Activity Reduces Need for Near-Term Cuts

Meanwhile, latest economic activity indicators have come in stronger than expected, with the economy growing by a robust 2.9% m/m in July, more than reversing the 1.0% decline in June. This was the largest m/m gain since September 2021, driven by a rebound in manufacturing production and construction activity. Service sector activity also rose by a solid 1.9% m/m, amid broad-based gains across sectors. The data followed stronger-than-expected IP and retail sales stats for July as well, suggesting that the economy made a strong start to the third quarter, and supporting expectations that the central bank will extend holding rates this week. The Board is likely to remain split however, possibly in another tight 4-3 vote, with the more dovish government-appointed members continuing to argue for renewed rate cuts.

On the fiscal front, the government announced a COP26.3tn (1.4% of GDP) tax reform at the start of the month, which is seen as being crucial for fiscal consolidation and achieving the 6.2% of GDP fiscal deficit target in 2026. This is incorporated in the 2026 budget bill which is currently being discussed in Congress. After a lengthy debate, the joint economic committees of Congress finally voted to approve a budget of COP 547tn last week. This represented a COP 10tn reduction from the government's original proposal, consistent with latest remarks from Finance Minister Avila that the government is willing to reduce its revenue estimate for its tax bill by COP 10tn to COP 16.3tn.

The budget bill now moves forward for a full vote in Congress, where both the Senate and Lower House need to approve it before an October 20 deadline. If they don't, it would need to be approved by a presidential decree, without congressional approval, as it was last year. Regardless of these developments, the country's Fiscal Council said recently that to accomplish the medium-term fiscal framework targets, the budget requires an even larger adjustment, equivalent to 2.4% of GDP. Persistent fiscal pressures will thus remain an ongoing concern for the BanRep board.

Fiscal Pressures a Risk to Continued COP Outperformance

Despite the ongoing fiscal concerns, the Colombian peso has continued to outperform regional peers since the last MPC meeting, rallying by a further 7% against the US dollar over the period. The move reflects the benefit of continued attractive carry for the peso, as well as support from recent government debt operations and an uptick in crude prices. As a result, USDCOP fell to a fresh cycle low of 3827 earlier this month, just above key support at 3800 and the lowest level since May 2024, before rebounding slightly to around 3900 heading into month-end. Nonetheless, analysts remain cautious on the peso's longer-term outlook, given the deteriorating fiscal backdrop and uncertainty heading towards next year's parliamentary and presidential elections.

USDCOP Near 16-Month Lows

Source: MNI/Bloomberg Finance L.P

MNI Colombia Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	5.10	5.1	↑	5.3	↓					-0.84
Core CPI	% y/y	4.85	5.1	↓	5.4	↓					-1.27
Oil Price (WTI Active)	$	65.72	58.20	↑	66.43	↓					-0.07
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	55.3	52.6	↑	49.0	↑					2.11
Manufacturing Prod.	% y/y	5.8	-3.3	↑	1.8	↑					1.32
Economic Activity NSA	% y/y	4.33	0.90	↑	2.34	↑					
Trade Data		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Trade Balance	$ M	-1691.8	-1355.0	↓	-1278.9	↓					-1.59
Exports FOB	$ M	4429.9	4119.4	↑	3776.7	↑					
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% y/y	17.9	12.6	↑	8.3	↑					0.55
Consumer Confidence	Index	-2.4	-3.8	↑	-12.0	↑					0.18
National Unemployment Rate	%	8.8	8.8	↑	11.6	↓					-0.63
Urban Unemployment Rate	%	8.4	8.7	↓	11.1	↓					-0.90
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Bolsa de Valores	Index	12,600	12,000	↑	12,000	↑					1.02
Local 10-Year IBR Swap Rate	%	9.24	9.11	↑	8.81	↑					0.95

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Analyst Views

Almost all analysts in the latest Bloomberg survey (24/25) expect the central bank to remain on hold at 9.25% this week. The remaining analyst expects the policy rate to be cut by 25bp, as does SocGen in the sample below.

BBVA: Sticky Inflation to Keep BanRep on Hold for Extended Period

- The Colombian economy will continue on a gradual acceleration path. Performance will be led by domestic consumption, but investment, particularly in construction, is expected to progressively gain traction.
- Inflation remains sticky, projected at 5.0% by the end of 2025 and 4.3% in 2026. This persistence, driven mainly by core inflation, will likely keep the central bank's policy rate at its current level for an extended period. It is estimated to end 2025 at 9.25% and then reach 8.50% by the end of 2026.
- That said, a single vote can still shift the balance, and easing could still materialise into 2026, but overall high rates are likely to continue to support the COP.

BNY Mellon: Expect Rate to Stay Unchanged, Hedging Flows in COP Increasing

- Rates are expected to remain unchanged at 9.25% as annualised inflation rebounded above 5% y/y again in August. However, sequential inflation is manageable, and the real-yield buffer is very strong at well over 400bp.
- However, BNY Mellon have started to see some hedging flows pick up in COP as LatAm exposures remain very high across the board. The Fed cut and high local real yields will continue to support duration – which is reflected in flows – but currency hedging will rise, even for very high yielders such as COP. Relations with the US and tariff issues could lead to incremental hedging interest as well.

CIBC: See Rates On Hold, But Bar for Dovish Surprise May be Lower Than Priced

- Continuing with the cautious approach adopted by the majority of the board, CIBC expects Banrep to keep the reference rate on hold at 9.25% on Tuesday. Recent CPI and economic activity data are expected to keep most of the board cautious for now, though CIBC thinks a resumption of the easing cycle at pace of 50bp per meeting in late Q4/early 2025 cannot be ruled out.
- Note that the bar for dovish surprises may not be as high as current market pricing suggest as the previous rate decision was split: two board members supported a 50bps rate cut, one favoured a 25bps cut, and four voted to pause the easing cycle.

- CIBC also highlights that fiscal risks - including the suspension of the fiscal rule and lack of progress on reform - have led the market to reprice Banrep's terminal rate to 8.80%, about 80bp higher than expectations in early May. However, the ex-ante real rate remains over 250bp above neutral, well above the 2014–2025 average of 55bp.
- Market pricing for Banrep's reference rate twelve months from today is also ~ 50bp above levels anticipated by local economists in the latest survey, suggesting a strong likelihood of dovish surprises into 2026, especially as the Fed resumes its easing cycle.

Goldman Sachs: Board Likely to Maintain Cautious, Data-Dependent Guidance

- Goldman Sachs expects the MPC will keep the policy rate at 9.25% on Tuesday in a divided vote, with four members favouring a hold and three advocating for a cut.
- The committee will likely maintain its cautious, data-dependent guidance, reiterating that future decisions will also hinge on the evolving balance of inflation risks. While not precluding a future resumption of the cutting cycle, the MPC will likely conclude that current conditions do not yet warrant a rate cut.
- GS expects the hawkish members to emphasise upside risks to inflation, particularly the prospect of a significant minimum wage hike for 2026. All told, the growing probability of a forceful wage increase in the 11-12% range has prompted GS to revise their forecast, removing their original expectation for 25bp cuts this week and in October. They now see the policy rate at 9.0% at end-2026.

Itaú: Limited Room for Near-Term Cuts, See Rates on Hold Through Year-End

- In public appearances, Governor Villar has continued to advocate for a restrictive monetary policy stance to ensure inflation converges to the target in 2026. He noted that inflation has not decelerated as much as anticipated and pointed out that inflation expectations remain above the long-term target of 3%.
- While emphasising that the current policy stance is a key instrument to guide inflation toward the target, he does not believe it is too restrictive to impede the economic recovery. Additionally, Governor Villar highlighted that fiscal imbalances are another factor limiting the possibility of a more accommodative stance, as they contribute to higher neutral rates via term premia.
- Although domestic demand remains strong, key sectors of the economy have experienced a sharper-than-expected slowdown. Consequently, Itaú revised their GDP growth forecast down to 2.7% for 2025, but up to 2.8% for 2026, compared to previous projections of 2.9% and 2.6%, respectively.
- Persistent inflationary pressures, stemming from a tight labour market, are likely to keep headline inflation above 5% through the end of the year. Upward pressure from gas prices will also constrain further disinflation. Itaú maintain their year-end CPI forecast for 2025 and 2026 at 5.1% and 4.0%, respectively.
- Sticky inflation in the context of above-target inflation expectations, and fiscal concerns leave limited room for interest rate cuts in the near term. Itaú maintain their forecast of no rate cuts during the remainder of this year, with 100bp of easing to come in 2026 to 8.25%.

JP Morgan: Now Expect BanRep to Remain On Hold Through Year-End

- The initial data releases for economic activity in the third quarter indicate strong growth momentum, following a period of softer-than-anticipated growth in the first half of the year, as reflected in the latest national accounts report. Despite the usual choppiness of this activity indicator, its performance and its breakdown reinforce JP Morgan's baseline for economic activity to remain firmly grounded in the second half of the year - supported in part by a pro-cyclical fiscal stance.
- This combination is already manifesting itself into higher inflation expectations ahead. In fact, both the next 12-months and 2026 year-end inflation expectations are trending higher, already piercing the 4% ceiling of the inflation target tolerance range.
- Against this backdrop, and despite easier external financial conditions, JPM now sees the likelihood well above 50% for the BanRep not only to stand pat this month, but through the year-end.
- Admittedly, a wider interest rate differential amid easier external financial conditions may reverberate into a stronger currency. If the real exchange rate starts to deviate from fundamentals, the monetary authority could decide to elevate the international reserves stock via a new reserves accumulation programme.

Scotiabank: Policy Easing May Only Restart in Q1 2026, No Significant Change in Guidance

- Scotiabank expects BanRep to hold its overnight lending rate at 9.25% on Tuesday. One major reason for this is that inflation data since July have been somewhat warmer that expected. July ticked higher to 4.9% y/y and August again moved higher to 5.1%. Core CPI has been holding around 4.9% y/y. Both readings are far above BanRep's 3% +/-1% target range. Inflation expectations also remain elevated and sticky.
- Scotiabank thinks that BanRep will stay on hold until year-end, with policy easing (from fairly restrictive conditions) only possibly restarting in Q1 2026. However, much hangs on the decision for next year's minimum wage hike that could augment indexation practices that have entrenched high inflation in Colombia.
- With that information still missing, there likely won't be a significant change to the central bank's guidance. There may be a few more details on how their views have evolved upon the release of the meeting minutes on Friday.

SocGen: Expect 25bp Rate Cut This Week

- While disinflation remains slow, an important aspect of BanRep's hawkish approach in this easing cycle has been its focus on a weak fiscal situation that could hurt financial stability and Colombian assets. Clearly, the central bank doesn't want to see itself in a Brazil-like situation whereby the BCB had to reverse its easing around mid-2024 due to unsettled fiscal problems.
- Nevertheless, the COP has appreciated by 7.8% since BanRep's last policy meeting. Of course, part of this appreciation is down to high carry, but with a real rate of 5.2% (vs 10-year average of 2.4%), the central bank has room to cut rates further.
- SocGen expects a year-end policy rate of 8.75% but sees upside risk. Disinflation remains slow, and year-ahead inflation expectations have risen in recent months to ~4.0%. Inflation risks present significant upside risk to their forecast of two 25bp rate cuts this year, including one this week to 9.00%.
- Nevertheless, with the Fed also resuming rate cuts, SocGen believes that the BanRep board will continue with intermittent (or possibly gradual) rate cuts in the coming meetings. For now, SocGen retain their year-end policy rate forecast of 8.75%, and expect a fall to 7.25% at end-2026.
- Next year's election and the resulting changes (or lack thereof) in fiscal policy are the key risks to their rates outlook. The market seems relaxed about the fiscal outlook, if not about the current situation. BanRep could make use of improving financial conditions and cut rates more aggressively if the inflation situation improves faster.

MNI Policy Team Insights

MNI EM INTERVIEW: Limited Room For BanRep Cuts This Year - Steiner

By Larissa Garcia
Sep 3, 2025

The Central Bank of Colombia still has room to cut interest rates this year, but by no more than 50 or 75 basis points given inflation concerns, former BanRep director and board member Roberto Steiner told MNI.

"I believe there is some room to lower interest rates, but not much. Market expectations suggest that the policy rate will decline slightly this year, but it is unlikely to fall more than 50 or 75 basis points," he said in an interview, adding that there could be a small 25-basis-point cut at the next meeting.

Steiner, who served as a board member until February of this year, said rates might end this year at around 8.5%, emphasizing that monetary policy needs to remain restrictive.

"According to the Taylor rule, the interest rate should be set above neutral when inflation expectations are not well anchored, the output gap is not clearly negative, and there are exchange rate or fiscal risks," he said.

BanRep kept interest rates unchanged at 9.25% at the end of July in a split four-three decision, with two members voting for a 50-basis-point cut and one for 25 basis points.

SPLIT BOARD

Steiner said that while the latest rates decision was the right one, the board may remain split in upcoming decisions. He was one of two board members removed by President Gustavo Petro, acting in line with Colombian law, and replaced by others who are closer to the thinking of the left-wing government, which has publicly called for lower rates.

"But I don't believe there is pressure on those people. I am sure they are independent and acting according to their conscience. Fortunately, they are a minority in the board," he said. "There was no such pressure when I was on the board, nor do I think there is now. What happens is that people simply think differently."

The board has not shied away from expressing its concerns over the government's fiscal management, particularly at a time when Petro wants to raise the minimum wage by significantly more than inflation, he noted.

INVESTMENT CONTRACTION

According to BanRep's minutes, inflation expectations remained above the 3% target even as annual inflation fell from 5.1% in May to 4.8% in June.

While investment has contracted, consumption remains strong, Steiner noted.

"The contraction in investment has very little to do with monetary policy. Therefore, the central bank must maintain a very restrictive monetary policy because the source of aggregate demand that most affects inflation — private consumption — is growing strongly," he said.

Fiscal factors appear to have pushed up the real neutral rate, from around 1.75% to something closer to 3%, according to Steiner.

"It would not surprise me if, when inflation reaches 3%, the terminal rate is around 6%. That would mean a real rate of 300 basis points, which is much higher than the terminal real rate we had, for example, before the pandemic, when the economy was more or less in balance."

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